Report of the Vermont State Auditor

June 18, 2008

INTERNAL CONTROLS

Results of Review at the Agency of Human Services

Thomas M. Salmon, CPA
Vermont State Auditor
Rpt. No. 08-7

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THOMAS M. SALMON, CPA
STATE AUDITOR

STATE OF VERMONT
OFFICE OF THE STATE AUDITOR

June 18, 2008

The Honorable Gaye Symington
Speaker of the House of Representatives

The Honorable Peter D. Shumlin
President Pro Tempore of the Senate

The Honorable James Douglas
Governor

The Honorable Cynthia D. LaWare
Secretary of the Agency of Human Services

Dear Colleagues,

As part of our audit of the Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2007, we reviewed internal controls over financial reporting, and compliance with laws and regulations at several State organizations, including the Agency of Human Services. Our work was performed for the limited purpose of planning and performing this audit and would not necessarily identify all deficiencies in internal control over financial reporting. In general, we found that many of the controls that we reviewed at the Agency of Human Services Agency were appropriately designed and implemented. In particular, I want to commend the Agency for the implementation of its Internal Audit Group which is comprised of five internal auditors and has been initially charged with assisting Agency personnel with the remediation and prevention of Single Audit findings and has enhanced the Agency's control environment.

Nevertheless, we also found areas of internal controls in which improvements could be made. Such areas related to entity level controls and control activities related to taxes on certain healthcare providers, certain accounts receivable and liability balances, and information technology (IT) controls. Some of these control weaknesses that we found are in the process of being addressed, which is a credit to the Agency.

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I would like to thank the management and staff of the Agency of Human Services for their cooperation and professionalism. If you would like to discuss any of the issues raised by this audit, I can be reached at (802) 828-2281 or at auditor@state.vt.us.

Sincerely,

Thomas M. Salmon CPA

Thomas M. Salmon, CPA
State Auditor

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Abbreviations

AP	Accounts Payable
AHS	Agency of Human Services
AHS CO	Agency of Human Services Central Office
BFIS	Bright Futures Information System
CAFR	Comprehensive Annual Financial Report
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CAP	Cost Allocation Plan
DAIL	Department of Disabilities, Aging and Independent Living
DCF	Department for Children and Families
DOC	Department of Corrections
DMH	Department of Mental Health
EDS	Electronic Data Systems Corporation
IAG	Internal Audit Group
IBNR	Incurred but Not Reported
IT	Information Technology
OVHA	Office of Vermont Health Access
VDH	Department of Health

SAS	Statement on Auditing Standards
SSMIS	Social Services Management Information System
TPL	Third Party Liability
VISION	Vermont Integrated Solutions for Information and Organizational Needs (General Ledger)

Introduction

The mission of the Agency of Human Services (AHS or the agency) is to improve the condition and well-being of Vermonters today and tomorrow and to protect those who cannot protect themselves. The agency is comprised of seven departments, including the agency's central office.

- *Agency of Human Services Central Office (AHS CO).* Responsible for strategically leading the agency and its departments and establishing and implementing agency-wide policies and practices that cross departmental boundaries.

- *Department of Disabilities, Aging and Independent Living (DAIL).* Responsible for providing support services for blind, visually impaired, disabled and elderly Vermonters. Also, Deaf and Hard of Hearing Services is a division of DAIL, serving individuals with hearing loss to ensure they have equal access to the services of all departments, divisions and programs within AHS.

- *Department for Children and Families (DCF).* Responsible for providing developmental, protective, therapeutic, probation, economic and other support services for child and families in partnership with schools, business and community leaders, service providers, families and youths statewide.

- *Department of Corrections (DOC).* Responsible for providing leadership in crime prevention, repairing harm done, addressing the needs of crime victims, ensuring offender accountability for criminal acts and managing the risk posed by offenders.

- *Department of Health (VDH).* Responsible for providing prevention, interventions, treatment and recovery services to a wide array of Vermonters. In addition, the department provides toxicology and risk assessment related to environmental health concerns, inspects and licenses food and lodging establishments, maintains the state's system of Vital Records[1] and tests drinking water for private well owners.

- *Department of Mental Health (DMH)*. Responsible for providing mental health services to children and adults who have severe and persistent mental illnesses and/or severe emotional disturbances.

- *Office of Vermont Health Access (OVHA)*. Responsible for the management of Vermont's publicly funded health insurance programs, including the State's Global Commitment to Health Waiver.

AHS expenditures represented 37 percent or $1.5 billion of the State's primary government expenditures during fiscal year 2007, of which $875 million were federal expenditures.

In consideration of the agency's financial significance and in accordance with our internal control audit obligations[2] related to the State's fiscal year 2007 Comprehensive Annual Financial Report (CAFR), our objectives were to assess AHS's internal controls over financial reporting, and compliance with laws and regulations related to its (1) entity-level controls,[3](2) financial control activities and 3) information technology (IT) control activities.[4]

Auditing standards define three types of control findings.[5] First, a control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. The auditor must evaluate identified control deficiencies to determine whether these deficiencies, individually or in combination, are significant deficiencies or material weaknesses. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote[6] likelihood that a misstatement of the entity's financial statements that is more than inconsequential[7] will not be prevented or detected. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

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[1] Vital records available from the Vermont Department of Health include records of Vermont births and deaths, marriages and divorces, and the establishment and dissolution of both civil unions and reciprocal beneficiaries' relationships.

[2] *Generally Accepted Auditing Standards* AU Section 150.02 (American Institute of Certified Public Accountants, Inc.). These standards require that auditors obtain a sufficient understanding of the entity and its environment, including its internal control, to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures.

[3] Entity-level controls can have a pervasive effect on the overall system of control activities and pertain to the organization as a whole. They encompass the organization's control environment, risk assessment, information and communication, and monitoring activities.

[4] Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives. Our review of the agency's control activities included both financial and information technology controls.

[5] *Statement on Auditing Standards (SAS) 112, Communicating Internal Control Related Matters Identified in an Audit* (American Institute of Certified Public Accountants, Inc., May 2006).

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[6] SAS 112 states that the likelihood of an event is "more than remote" when it is at least reasonably possible.

[7] The term "more than inconsequential" describes the magnitude of potential misstatement that could occur. A misstatement is inconsequential if a reasonable person would conclude, after considering the possibility of further undetected misstatements, that the misstatement, either individually or when aggregated with other misstatements, would clearly be immaterial to the financial statements.

Highlights: Report of the Vermont State Auditor

Internal Controls: Results of Review at the Agency of Human Services

(June 2008, Rpt. No. 08-7)

Why We Did This Audit

As part of our audit of the State's fiscal year 2007 CAFR, we evaluated the agency's internal controls over financial reporting, and compliance with laws and regulations. Specifically, we reviewed the design and implementation of the agency's entity-level controls and financial and IT control activities, but did not perform tests of effectiveness.

What We Recommend

We made a variety of recommendations pertaining to entity-level controls and control activities. In particular, we recommended that AHS CO incorporate into its risk assessment process the use of common criteria to measure the risks across departments to evaluate the likelihood and magnitude of unfavorable events, and develop a process to ensure that accounts payable are recorded in the appropriate fiscal year. We've also recommended that the agency improve its controls over provider taxes by segregating duties, performing a more robust review of the provider tax calculation, logging cash receipts and reconciling them

Summary of Findings

In general, the departments provided evidence that they established and utilized many key entity-level controls, such as management's use of financial reports as part of its decision making. Of particular note, the agency has established an internal audit group (IAG) responsible for providing reasonable assurance that the agency's funds are used for their intended purposes and to assess related procedures that provide such assurance. The IAG has been initially charged with working closely with outside auditors and agency's staff to develop and implement plans to remediate prior year Single Audit findings. This added focus in this critical area helped reduce the number of AHS control weaknesses in the subrecipient grant area between fiscal years 2006 and 2007. Although the agency demonstrated that it utilized many key entity-level controls, we noted several deficiencies. These deficiencies were consistent among the departments.

- The agency's processes do not address the full breadth of a risk assessment process.
- The agency has documented some of its accounting processes, but many remain undocumented.
- Many agency employees have not received performance evaluations or they have not been performed in a timely manner.

The results from the review of the departments' financial control activities were mixed. Generally, the agency's internal controls common across the departments, such as payroll, accounts payable, purchasing, grants and contracts were properly designed. Whereas, those internal controls unique to a single department, such as the assessment and collection of taxes on certain healthcare providers, had more deficiencies. The following are the summary results of our review of the agency's control activities.

- Generally, the departments' internal controls over the payroll, purchasing, grants and contracts, and Federal awards accounts receivable and revenue processes were properly designed.
- Many of the departments' accounts payable controls we reviewed were properly designed. However, our testing of 186 disbursements made after the end of the fiscal year indicated that 11 percent were recorded in the incorrect accounting period,

to the deposits and using a subsidiary accounts receivable system to track accounts receivable. In addition, we recommended that the agency retain all supporting documentation for significant accounts at year-end, including certain accounts receivable and liability balances.

resulting in an audit adjustment of $4.5 million. We consider this a significant deficiency.

- OVHA did not review the allocation methods assigned to the department's accounts during its quarterly cost allocation plan (CAP) process. The CAPs provide a process for identifying and assigning all direct and indirect costs incurred by applicable departments to activities or cost centers. We consider this to be a deficiency.
- OVHA's processes related to the assessment and collection of taxes on certain healthcare providers had multiple deficiencies including lack of segregation of duties, insufficient review of the assessment calculations, insufficient controls over cash receipts and an inadequate accounts receivable system. Collectively, we consider these deficiencies to be significant.
- OVHA did not maintain underlying support for certain accounts receivable and liability balances which is considered to be a deficiency.

Lastly, DCF and OVHA did not have certain fundamental information technology controls in place, which we consider to be a significant deficiency. For example, DCF had control deficiencies related to access to programs and data and changes to application and systems software. In the case of OVHA, it did not have all expected user controls in place related to its major claims processing service providers. Both DCF and OVHA have largely indicated that they planned to address the identified problems and, in some cases, have already taken action.

Background

Internal control can be broadly defined as a process, affected by an entity's governance structure, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.[8]

Internal control is a major part of managing an organization. Such controls comprise the plans, methods, and procedures used to meet missions, goals, and objectives. In addition, internal controls serve as the first line of defense in safeguarding assets and preventing and detecting errors and fraud.

Scope and Methodology

As part of our audit of the State's fiscal year 2007 CAFR, we gained an understanding of internal controls at the Agency of Human Services. Our work was performed for the limited purpose of planning and performing this audit and would not necessarily identify all deficiencies in internal control over financial reporting. We considered the design of the Agency's controls and whether they had been implemented. We did not test the operational effectiveness of the controls. We assessed the entity level and key control activities individually at the Central Office and Department levels.

To assess the agency's entity-level controls, we used guidance developed by the U.S. Government Accountability Office to develop a set of questions that addressed the control environment, risk assessment, information and communications, and monitoring. We assessed the responses to these questions that were provided by agency's departments. To corroborate management's responses we reviewed and assessed applicable documentation, such as department budgets, strategic plans, key financial reports, employee performance evaluation forms, and internal control self-assessments.

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[8] This definition generally comes from the Committee of Sponsoring Organizations of the Treadway Commission (COSO), but we substituted the term governance structure for board of directors used in the original definition to make it more applicable to State government.

We performed extensive interviews with the departments' process owners to understand, document and identify the control activities included in the scope of our review. Refer to Table 1 for a summary of financial control activities included in the scope of our review.

Table 1: Summary of Financial Control Activities Included in the Scope of our Internal Control Review

Control Activity	Department					
	AHS CO	**DAIL**	**DCF**	**DOC**	**VDH**	**OVHA**
Payroll	X	X	X	X	X	X
Accounts payable	1	X	X	X	X	X
Purchasing	1	X	X	X	X	X
Grants and contracts	1	X	X	X	X	X
Cost Allocation Plans	X	X	X	N/A	X	X
Provider taxes	N/A	N/A	N/A	N/A	N/A	X
Medicaid incurred but not reported (IBNR) liability	N/A	N/A	N/A	N/A	N/A	X
Drug rebate accounts receivable and revenue	N/A	N/A	N/A	N/A	N/A	X
TPL accounts receivable and revenue	N/A	N/A	N/A	N/A	N/A	X
Federal awards accounts receivable and revenue	X	N/A	N/A	N/A	N/A	N/A

X – The business process for this department was included in the scope of our review.

1 – The business process for this department was not included in the scope of our review.

N/A – The business process was not utilized during the year by this department.

During our review we obtained evidence to corroborate our review of selected control activities by performing walkthroughs. The walkthroughs consisted generally of a review of the selected control activities with agency staff and a corroboration of selected controls by inspection or re-performance of those activities. For example,

- To verify that invoices were reviewed and approved by a supervisor we reviewed invoices and voucher payment packages for completeness and proper approval.

- To corroborate that a Division Director or Supervisor reviews and approves the purchase orders we inspected a sample of purchase orders to confirm that they were appropriately approved.

- To validate that grants were appropriately approved by the Department of Finance & Management we inspected a sample of an internal grant routing sheet and agreement to verify the proper approvals were evidenced.

- To corroborate that annual provider tax assessment letters are reviewed by the Deputy Director and signed by the Director we re-performed the control activity by selecting one hospital, nursing home and home health agency provider tax letter to verify it was signed by the Director and we recalculated the tax assessment in the letters using the appropriate statutory rate and tax basis.

- To validate that the Director of Fiscal Operations performed a review of certain Medicaid accounts receivable balances we re-performed the review of the balances by validating them to the supporting documentation.

In addition, as part of our review of the IT control activities we gained an understanding of general controls[9] for the Bright Futures Information System (BFIS) and Social Services Management Information System (SSMIS) IT environments. In particular, we assessed whether there were weaknesses in the design of controls in the areas of (1) access to programs and data, (2) application and system software changes, and (3) computer operations. To make this assessment, inquiries were made of management and applicable AHS and DCF IT staff. In addition, a walkthrough of the center that houses the computer equipment was performed and available policies reviewed. We also reviewed the most recent reports of independent audits of controls utilized by EDS Vermont and SXC Health Solutions, Inc. As part of this review, we identified the user controls that are applicable to the State's Medicaid program and interviewed relevant OVHA IT and pharmacy staff and the then MedMetrics point of contact about how the State implements these controls. In addition, we reviewed applicable documentation, including OVHA's user access control procedures and continuity of operations plan. We also reviewed examples of user access and system change requests pertaining to the EDS Vermont claims processing system to determine whether these processes were being performed in accordance with OVHA's procedures.

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[9] General controls are the structure, policies, and procedures that apply to an entity's overall computer operations. They create the environment in which application systems and controls operate.

We performed this audit in accordance with generally accepted government auditing standards during June through December 2007 at the department business office locations in Burlington, Montpelier, Waterbury and Williston.

Entity-level Controls

In general, we found that the entity-level controls of the agency were designed properly. Some improvements could be made to further strengthen its entity level controls, particularly in the control environment, risk assessment, and information and communication areas, which encompass the following:[10]

- *Control environment.* The control environment sets the tone of an organization. It is the foundation for all other components of internal control. Among the factors that influence an evaluation of an organization's control environment are ethical values and integrity, management philosophy and operating style, commitment to competence, and structure.

- *Risk assessment.* Risk assessment is the identification and analysis of relevant risks to the achievement of the objectives of an organization, which forms the basis of determining how these risks should be managed.

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[10] To guide our assessment of entity-level controls, we generally utilized the internal control frameworks and definitions promulgated by COSO and the U.S. Government Accountability Office. These concepts are also included in State guidance on internal controls, *Internal Control Standards: A Guide for Managers* (Department of Finance and Management).

- *Information and communication*. For an entity to run and control its operations, it must have relevant, reliable information, both financial and non-financial, related to internal and external events. Effective communication must occur in a broad sense, flowing down, across, and up the organization.

- *Monitoring***.** Internal control environments need to be monitored. Ongoing monitoring occurs in the course of operations, including regular management and supervisory activities.

The agency has implemented many important entity level controls, but we did note some deficiencies during our review. The following are the results of our review of the agency's entity level controls.

- *Control Environment.* The agency provided evidence that it had implemented many important controls in this area. For example, as part of establishing an ethical tone in control environment, the agency's human resource personnel provide new employees with a "Guide for New Employees" which includes a section on employee conduct.

  The State's personnel policies and procedures manual notes that annual performance evaluations are to be completed for all classified employees on the anniversary date of the employee's completion of original probation, or on the anniversary date of restoration, or reduction-in-force rehire to State service[11]. Completing timely performance evaluations is required under the State's personnel policy and provides employees the necessary feedback to enable them to perform their duties satisfactorily and meet their annual objectives. Nevertheless, many AHS employees have not received performance evaluations or they have not been performed in timely manner. Candid and constructive performance evaluations are an important element to demonstrating commitment to competence.

- *Risk Assessment.* Managers use risk assessments to determine the relative potential loss in programs and functions and to design the most cost-effective and productive internal controls. [12] A risk assessment process should provide structure and guidance over the identification, analysis, and management of risks relevant to the achievement of the agency's goals and objectives. These risks should be evaluated in terms of the likelihood that an unfavorable event would occur and its potential impact.[13] We recognize the agency has put forth considerable efforts to identify and assess the risks to the agency. These financial and operational risks are considered throughout the year by the departments and the Secretary's office. For example, annually, the departments summarize risks and priorities which are considered collectively by the Secretary's office. The Secretary's office also utilizes other platforms for identifying risks, such as weekly meetings with the Commissioners to discuss new developments, information and risks, and monthly financial monitoring meetings with each department to review fiscal health and program initiatives. While the processes utilized by AHS assist with identifying the agency's risks, these processes do not include the use of a consistent rating scale for each department to measure the risks and to evaluate the likelihood and magnitude of potential unfavorable events. Without the use of a formal methodology and common scale to define what constitutes a high, medium, or low risk area, it's possible to have inconsistent assessment of risk and it may be more difficult to prioritize proposed actions that can be the result of such an assessment.

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[11] Department of Human Resources, policy # 7.0.

[12] *Internal Control Standards: A Guide for Managers* (Department of Finance and Management).

- *Information and Communication.* The agency provided evidence that it has implemented many important information and communication entity level controls. For example, the departments provide senior management with detailed monthly budget to actual financial statements. In addition, the departments regularly communicate via department-wide meetings and emails to discuss organizational changes and other important information.

  During our review of the agency's information and communication controls we noted that certain departments have identified and have documented some of their processes, such as accounts payable, payroll and grants and contracts. It is clear the departments recognize the importance of documenting their accounting processes. However, improvements could be made to ensure that all key accounting processes are documented. Detailed documented accounting processes help to ensure that (1) the accounting process is properly designed, (2) fiscal personnel have a clearly defined accounting framework to enable them to perform their duties, and (3) financial reports and schedules are produced efficiently and in a form useful to management and other parties. In addition, well-written accounting processes will aid in the training of new employees and will assist management in maintaining an effective internal control structure.

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[13] *Internal Control Standards: A Guide for Managers* (Department of Finance and Management).

- *Monitoring.* During the year, the agency established the IAG, consisting of five auditors, who are responsible for providing reasonable assurance that the agency's funds are used for their intended purposes and to assess related procedures that provide such assurance. One focus of the group has been on establishing better control processes over subgrantees across the agency. This added focus in this critical area helped reduce the number of AHS control weaknesses in the subrecipient grant area between fiscal years 2006 and 2007. We commend the agency for establishing this group and feel they will be instrumental in providing guidance for the remediation and prevention of audit findings. We encourage agency and IAG in conjunction with the Department of Finance and Management to continue to be proactive in monitoring and strengthening the agency's internal controls.

The agency also did not employ two common mechanisms that can assist in preventing and detecting fraud, particularly from internal sources. Specifically, the agency did not conduct background checks on employees with a high level of fiscal responsibility nor does it have a formal fraud prevention program, such as a whistle blower hotline.

Also, outside of daily supervision and annual employee evaluations, many departments did not have a formal process to ensure employees' received sufficient, appropriate and timely training. In the absence of formally established training policies and procedures, employees may not receive the training and tools necessary to meet their job requirements.

However, because we found that the State as a whole lacked these mechanisms, we will be addressing these issues on a statewide basis rather than on an agency-by-agency basis.

Financial Control Activities

The results from our review of the departments' control activities were mixed. Generally, the agency's internal controls common to most departments, such as payroll, accounts payable, purchasing, grants and contracts and the cost allocation plan processes were properly designed. Overall, most of the Medicaid IBNR liability, drug rebate and TPL accounts receivable and revenue internal controls we examined were properly designed. However, we noted deficiencies relating to a lack of retention of documentation to support financial statement allocations and balances. We found numerous deficiencies during our review of the provider tax control activities.

Table 2 below summarizes the results of our review of the agency's control activities.

Table 2: Summary Results of Financial Control Activities Reviewed.

Control Activity	Summary Results	Component Unit						Total Deficiencies	Severity of Deficiency		
		AHS CO	DAIL	DCF	DOC	VDH	OVHA		D	SD	MW
Payroll	No findings noted.							0			
Accounts payable	Improper "PY" coding of invoices.	E		E	E	E	E	1		X	
Purchasing	No findings noted.	N/A						0			
Grants & contracts	No findings noted.	N/A						0			
CAP	Insufficient review of the allocation methods assigned to the department's accounts.	N/A					E	1	X		
Provider Taxes	-Insufficient review of provider tax assessment calculations. -Lack of segregation of duties over the handling of cash receipts. -Insufficient controls over processing and reconciling cash receipts. -Insufficient reconciliation of the provider tax subsidiary system to the general ledger. -Inadequate accounts receivable system. -Incomplete supporting documentation for the inputs to the provider tax calculation.	N/A	N/A	N/A	N/A	N/A	E	6		X	
Medicaid IBNR liability	Underlying documentation to support management's review of the accrual balances was not retained.	N/A	N/A	N/A	N/A	N/A	E	1	X		
Drug rebate A/R and revenue	Documentation to support the allocations of the TPL account balances was not provided or retained.	N/A	N/A	N/A	N/A	N/A	E	1	X		
TPL A/R and revenue	Documentation to support the allocations of the TPL account balances was not provided or retained.	N/A	N/A	N/A	N/A	N/A	E	1	X		
Federal awards A/R and revenue	No findings noted.		N/A	N/A	N/A	N/A	N/A	0			

Control Activity	Summary Results	Component Unit						Total Deficiencies	Severity of Deficiency		
		AHS CO	DAIL	DCF	DOC	VDH	OVHA		D	SD	MW

E – An exception was noted during our review of the department's internal controls.
D – Deficiency
SD – Significant deficiency
MW – Material weakness
N/A – The business process was not utilized during the year by this department.

Payroll Control Activities

Overall, we noted the payroll process to be similar for all of the departments reviewed. Table 3 provides a description of some significant controls activities and the extent to which to they were appropriately designed at the department level.

Generally, we found the agency's internal controls over payroll to be properly designed.

Table 3: Summary results of our review of selected payroll control activities[a].

Selected Control Activities	AHS CO	DAIL	DCF	DOC	OVHA	VDH
Control 1. Time reports are reviewed and approved by an employee supervisor prior to input.	Yes	Yes	Yes	Yes	Yes	Yes
Control 2. The duties of the financial technician payroll data entry and payroll supervisor review are segregated.	Yes	Yes	Yes	Yes	Yes	Yes
Control 3. Edit checks are performed on time reports to validate time codes, leave balances and time totals.	Yes	Yes	Yes	Yes	Yes	Yes

[a] The controls activities identified above were included in the scope of our review, however, they do not represent the full breadth of payroll control activities.

Accounts Payable Control Activities

We reviewed the control activities for accounts payable for the agency's departments with the exception of AHS Central Office. Overall, we noted the accounts payable process to be similar for all of the agency's departments reviewed. Table 4 provides a description of some significant controls activities and the extent to which to they were appropriately designed at the department level.

Table 4: Summary results of our review of selected accounts payable control activities[a].

Selected Control Activities	**AHS CO**	**DAIL**	**DCF**	**DOC**	**OVHA**	**VDH**
Control 1. Invoices are reviewed and approved by a supervisor.	N/A	Yes	Yes	Yes	Yes	Yes
Control 2. Financial Technician reviews the coding on the cover sheet or written on the invoice to the invoice or supporting documentation to verify the accuracy of the coding.	N/A	Yes	Yes	Yes	Yes	Yes
Control 3. Supervisor approval of invoices, financial technician voucher entry and voucher approval by accounts payable supervisor are appropriately segregated.	N/A	Yes	Yes	Yes	Yes	Yes
Control 4. The accounts payable supervisor budget checks all vouchers prior to payment.	N/A	Yes	Yes	Yes	Yes	Yes
Control 5. The accounts payable clerk reviews each invoice to determine if invoices need to be designated with "PY" to report the expenditure in the appropriate fiscal year.	No	Yes	No	No	No	No

[a] The controls activities identified above were included in the scope of our review, however, they do not represent the full breadth of accounts payable control activities.

For the most part we found the agency's internal controls to be properly designed. We did, however, note one significant deficiency during the course of our audit. The results of our year-end accounts payable cut-off testing indicated that *Control 5*, the control over coding invoices to the proper accounting period, was not properly implemented in all departments, with the exception of DAIL.

During our detail testing of the accounts payable we examined subsequent cash disbursements from July 1 through October 31, 2007 to determine if the agency departments properly coded disbursements to the appropriate accounting period. According to the Department of Finance and Management's closing instructions, all departments must identify all vouchers and journals entered in fiscal year 2008 or with a fiscal year 2008 accounting date that pertain to prior year payables (goods or services received or performed prior to July 1, 2007) by using a "PY" prefix in the invoice number on vouchers and a "PY" in the journal class field on the header tab of journals.[14] We tested a varying number of disbursements for each department within the agency based on the volume and magnitude of disbursements incurred during the cut-off testing period. The number of exceptions identified and the dollar value also varied from department to department. Overall, we examined 186 agency subsequent cash disbursements and noted 21 exceptions. An audit adjustment totaling $4.5 million was recorded to increase accounts payable and related expenses at year-end. Refer to Table 5 for a summary of our cut-off testing results.

Table 5: Summary results of accounts payable cut-off testing.

Department	Total Items Tested	Total # of Exceptions	Error Percentage	Total Net Error
AHS CO	12	4	33%	(307,538)
DAIL	10	-	0%	-
DCF	82	8	10%	3,649,339
DOC	24	2	8%	149,453
VDH	22	5	23%	629,113
OHVA	36	2	6%	359,781
Total	**186**	**21**	**11%**	**4,480,148**

Given the number of errors that were found, additional training for accounts payable clerks or manager reviews of invoices paid shortly after the end of the fiscal year may be needed.

Purchasing Control Activities

We reviewed the control activities for the purchasing cycle for all of the agency's departments with the exception of AHS Central Office. Overall, we noted the purchasing process to be similar for all of the agency's departments reviewed. Table 6 provides a description of some significant controls activities and the extent to which to they were appropriately designed at the department level.

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[14] *FY 2007 Year End Closing Instructions* (Department of Finance and Management, May 1, 2007).

Generally, we found the agency's internal controls over purchasing to be properly designed.

Table 6: Summary results of our review of selected purchasing cycle control activities[a].

Selected Control Activities	**AHS CO**	**DAIL**	**DCF**	**DOC**	**OVHA**	**VDH**
Control 1. Division Director or Supervisor approves purchase orders.	N/A	Yes	Yes	Yes	Yes	Yes
Control 2. The Purchasing Coordinator reviews the purchase orders for proper approval, acceptable terms and conditions, and overall completeness and accuracy prior to approving in VISION.	N/A	Yes	Yes	Yes	Yes	Yes
Control 3. Initiation and editing of purchase orders is segregated from accounts payable and disbursements process.	N/A	Yes	Yes	Yes	Yes	Yes

[a] The controls activities identified above were included in the scope of our review, however, they do not represent the full breadth of purchasing cycle control activities.

Grants and Contracts Control Activities

We reviewed the control activities for the grants and contracts process for all of the agency's departments with the exception of AHS Central Office. Overall, we noted the grants and contracts process to be similar for all of the agency's departments reviewed. Table 7 provides a description of some significant controls activities and the extent to which to they were appropriately designed at the department level.

Based on our review of the grants and contracts process, the internal controls over the process appeared to be properly designed. We did not note any deficiencies during our review of this process.

Table 7: Summary results of our review of selected grants and contracts control activities[a].

Selected Control Activities	AHS CO	DAIL	DCF	DOC	OVHA	VDH
Control 1. Grants are appropriately approved by the Department of Finance & Management in accordance with Bulletin 5.5[b].	N/A	Yes	Yes	Yes	Yes	Yes
Control 2. Contracts are appropriately approved by the Commissioner, Attorney General's Office and/or Secretary of Agency of Administration in accordance with Bulletin 3.5[c].	N/A	Yes	Yes	Yes	Yes	Yes

[a] The controls activities identified above were included in the scope of our review, however, they do not represent the full breadth of grant and contracts activities.
[b] The State of Vermont's Agency of Administration Bulletin No. 5.5 promulgates the policies and procedures governing the issuing of State grant funds to grantees.
[c] The State of Vermont's Agency of Administration, Bulletin No. 3.5, establishes the general policy and minimum standards for soliciting services and products from vendors outside of state government, processing the related contract(s), and overseeing established contracts through their conclusion.

Cost Allocation Plan Control Activities

The agency's cost allocation plans (CAPs) are governed by the Office of Management and Budget (OMB) Circular A-87[15]. CAPs are required in order to provide a process for identifying and assigning all direct and indirect costs incurred by applicable agency's departments to benefiting activities or cost centers.

Overall, we noted the CAP process to be similar for all of the agency's departments reviewed. Table 8 provides a description of some significant controls activities and the extent to which they were appropriately designed at the department level. Generally, we found the agency's internal controls over the CAP to be properly designed.

A control deficiency was identified pertaining to lack of review of the approved allocation methods that are assigned to the appropriate accounts.

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[15] Cost Principles for State, Local, and Indian Tribal Governments for determining costs for Federal awards carried out through grants, cost reimbursement contracts, and other agreements.

OVHA was not reviewing the allocation methods that were assigned to the general ledger accounts allocated to the Federal programs. Without such a review, OVHA cannot ensure that department expenditures are being allocated consistent with the department's approved cost allocation plan.

Table 8: Summary results of our review of selected CAP control activities[a].

Selected Control Activities	**AHS CO**	**DAIL**	**DCF**	**DOC**	**OVHA**	**VDH**
Control 1. The business manager or accountant reconciles the quarterly department expenses per a VISION query to the total quarterly expenses imported into the CAP system.	N/A	Yes	Yes	N/A	Yes	Yes
Control 2. The business manager or accountant agrees the total quarterly expenses from the Initial VISION Import Reconciliation to the total quarterly expenses per the final CAP reports.	N/A	Yes	Yes	N/A	Yes	Yes
Control 3. A review is performed to verify that the approved allocation methods are assigned to the appropriate accounts.	N/A	Yes	Yes	N/A	No	Yes

[a] The controls activities identified above were included in the scope of our review, however, they do not represent the full breadth of CAP control activities.

Provider Taxes Control Activities

The State collects assessments from health care providers that help fund the State's Medicaid program. Specifically, as required by statute, the State annually assesses a tax on any hospital, nursing home, intermediate care facility for the mentally retarded, home health agency, or retail pharmacy operating in the State.[16] OVHA is responsible for the administration of these provider taxes, including (1) calculating the annual tax assessment, (2) collecting the taxes, and (3) recording the amounts received in VISION.

We found numerous deficiencies during our review of the provider tax control activities. Collectively, we consider these deficiencies to constitute a significant deficiency.

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[16] 33 V.S.A. §1950 to §1958.

- *Use of spreadsheets.* OVHA maintains a series of spreadsheets to track provider tax receipts and assessments. These spreadsheets are overly complex and are not an effective tool for tracking outstanding provider tax accounts receivable balances. For example, we could not easily identify how much was due from the providers and had difficulty reconciling the total fiscal year receipts to the general ledger. Because of the limitations of these spreadsheets, it may be prudent for OVHA to consider a more robust system alternative, such as a subsidiary accounts receivable system, to track provider tax receivables.

- *Review of provider tax assessments.* OVHA's Program Integrity Manager reviewed the spreadsheet used to calculate the provider taxes. However, this review was limited to checking spreadsheet formulas and links for accuracy and did not validate (1) the statutory rates reflected the applicable statutes and (2) the spreadsheet accurately reflected the underlying support. During our review it was also noted that a Nursing Home Tax Assessment Letter was mailed out with a per bed rate and provider tax that differed from the legislative rate and the provider tax assessment calculation worksheet. It appears that this assessment letter was not verified prior to it being mailed. Without such a verification process, OVHA risks that more such errors could occur in the future.

- *Segregation of duties*. Segregation of duties is the division of key duties and responsibilities among different people to reduce the risk of error or fraud. No one individual should control or perform all key aspects of a transaction or event[17]. In April 2007 a single accountant became responsible for handling, depositing, and recording provider tax receipts because of a vacancy. This same accountant was already responsible for maintaining and reconciling the provider taxes to the general ledger and her added responsibilities created a lack of segregation. Although OVHA has attempted to address this issue through a request to the Department of Human Resources, its request has not been approved. Nevertheless, a single individual should not have both custodial and record-keeping responsibilities because, for example, asset misappropriation is by far the most common form of occupational fraud, particularly as it relates to cash (defined as including currency, checks, and money orders) according to the Association of Certified Fraud Examiners.[18]

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[17] *Internal Control Standards: A Guide for Managers* (Department of Finance and Management).

[18] *2006 ACFE Report to the Nation on Occupational Fraud & Abuse* (Association of Certified Fraud Examiners, 2006).

- *Controls over processing and documenting of cash receipts.* Strong internal controls call for organizations to establish physical controls to secure and safeguard assets that are vulnerable to risk of loss or vulnerable to abuse, such as cash[19]. However, OVHA did not immediately endorse provider tax checks received, which increased their vulnerability to possible misuse. Another control over cash daily reconciliations of checks received to total checks deposited was also not performed. The lack of daily reconciliations increases the risk that mistakes or misuse would not be detected in a timely manner.

- *Reviews and reconciliation of provider taxes to the general ledger.* A reconciliation process, whether manual or automated, is a necessary and valuable part of a sound financial management system. In addition, the Department of Finance and Management has directed that all State departments who maintain an accounting system outside of VISION reconcile the activity in their systems to VISION as of the end of the fiscal year.[20] OVHA has not been reconciling the total approved provider tax assessments in its spreadsheets to the total related revenue reported in VISION. In addition, at the end of fiscal year 2007, OVHA did not reconcile the provider tax receipts recorded in its spreadsheets to VISION. Moreover, although daily reconciliations were being performed of provider tax receipts, there were no supervisory reviews of these reconciliations. We were subsequently not able to agree the total cash receipts in OVHA's spreadsheets to the total amount in VISION for fiscal year 2007.

- *Supporting documentation.* The provider tax assessments are calculated using provider tax basis information provided by the Department of Banking, Insurance, Securities, and Health Care Administration, such as the net patient service revenue for hospitals derived from audited financial statements. In fiscal year 2007, this information was gathered and entered into a provider tax assessment calculation spreadsheet by OVHA's then Director of Reimbursement, but was not retained. Because the Department of Banking, Insurance, Securities, and Health Care Administration updates this information periodically, there were non-material differences between OVHA's spreadsheet and data that we were able to obtain from this department. Accordingly, we were unable to completely substantiate the provider tax basis data used by OVHA in its provider tax calculation.

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[19] *Standards for Internal Control in the Federal Government* (U.S. Government Accountability Office, GAO/AIMD-00-21.3.1, November 1999).

[20] FY *2007 Year End Closing Instructions* (Department of Finance and Management, May 1, 2007).

Medicaid IBNR Liability Control Activities

At June 30, 2007, the agency recorded an accrual totaling $81,983,981 for medical provider claims which have been incurred but not reported (IBNR) as of year-end. This accrual represents medical claim expenditures incurred but not reported under various state and Federal programs. The liability at June 30, 2007 for each of these programs is calculated by 1) identifying the actual claims incurred prior to July 1, 2007 and paid during the 1st quarter of fiscal year 2008 and 2) estimating any remaining unpaid liabilities based on historical payment information.

OVHA is responsible for calculating the provider claim accrual at year-end and performing a detailed review of the balances. The Department of Finance & Management performs an overall review of the reasonableness of the calculated accrual balances.

The following is a description of some significant control activities. These control activities were included in the scope of our review; however, they do not represent all the control activities of this process.

- *Control 1.* The Program Integrity Manager performs a detailed review of the underlying data utilized in the provider claims accrual calculation. The Program Integrity Manager ran queries from the department's data warehouse to validate the claims incurred and paid dates and totals by program reported on the provider claim accrual schedules were appropriate.
- *Control 2.* The Director of Statewide Reporting reviews the provider claim accrual for reasonableness. This reasonableness review included a review of (1) the percentage increase in the provider claims accrual by program from the current to the prior year (2) claim payments by program to identify unusual patterns and payment trends and (3) the percentages used to allocate the provider claims accrual for each program to the appropriate fund.

Based on our review, OVHA's internal control activities over the Medicaid IBNR liability process generally appear to be properly designed. We did however have difficulty verifying the design of Control 1. The queries run by the Program Integrity Manager were not retained and needed to be recreated. Because the reports are point in time queries, the data did not reconcile, but the variance was not material to the financial statements.

Drug Rebate Receivable and Revenue Control Activities

Created by the Omnibus Budget Reconciliation Act of 1990, and section 1927 of the Social Security Act, the Medicaid Drug Rebate Program requires drug manufacturers to pay rebates to the States in exchange for Medicaid coverage of their drugs.

OVHA is responsible for oversight of the administration and year-end reporting of the State's drug rebate balances. At June 30, 2007, OVHA recorded a receivable for drug rebates totaling $11,213,760 due to the State from various drug manufacturers. These balances are allocated to the appropriate fund based on the program the outpatient drug was reimbursed under.

The following is a description of a significant control activity. This control activity was included in the scope of our review; however, it does not represent all the control activities of this process.

- *Control 1.* The Director of Fiscal Operations performs a review of the year-end drug rebate accounts receivable, revenue and deferred revenue balances and fund allocations.

According to the State's internal control guide, written documentation is the vehicle to clearly communicate the what, why, how, who, and when(s) of operations. It is instrumental in training new staff, retaining knowledge as staff leave/retire, ensuring consistency and accuracy, and enabling the department to monitor and review its internal control system[21].

However, OVHA had not retained documentation regarding the methodology used to allocate the drug rebate accounts receivable to the General, Federal and Global Commitment funds. Without a documented methodology, OVHA lacks a reliable basis to substantiate the allocation of the receivables recorded in the fund financial statements.

Third Party Liability Receivable and Revenue Control Activities

Third Party Liability (TPL) refers to the legal obligation of third parties, i.e., certain individuals, entities, or programs to pay all or part of the expenditures for medical assistance furnished under a State plan. The Medicaid program by law is intended to be the payer of last resort; that is, all other available third party resources must meet their legal obligation to pay claims before the Medicaid program pays for the care of an individual eligible for Medicaid. Examples of third parties which may be liable to pay for services include private health insurance and Medicare.

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[21] *Internal Control News: June 2006 Volume 2* (Department of Finance and Management).

At June 30, 2007, OVHA recorded a receivable for TPL health insurance recoveries totaling $2,272,053 due to the State for Medicaid claims paid under a State program for which another party has the legal responsibility for all or part of the claim. These balances are allocated to the appropriate funds based on the program the expenditure was reimbursed under.

The following is a description of a significant control activity. This control activity was included in the scope of our review, however, it does not represent all the control activities of this process.

- *Control 1.* The Director of Fiscal Operations performs a review of the year-end TPL accounts receivable, revenue and deferred revenue balances and fund allocations.

According to the State's internal control guide, written documentation is the vehicle to clearly communicate the what, why, how, who, and when(s) of operations. It is instrumental in training new staff, retaining knowledge as staff leave/retire, ensuring consistency and accuracy, and enabling the department to monitor and review its internal control system.

However, OHVA had not retained documentation to support the allocation of the TPL receivable and expense offsets to the General, Federal and Global Commitment funds. Without a documented methodology, OVHA lacks a reliable basis to substantiate the allocation of the receivables recorded in the fund financial statements.

Federal Awards Accounts Receivable and Revenue Control Activities

We reviewed AHS CO control activities over the Federal awards accounts receivable and revenue reporting process. The AHS CO Federal awards accounts receivable and revenue reporting process consists of reporting the accounts receivable, revenue and deferred revenue for the agency's Federal award balances at fiscal year-end for inclusion in the CAFR.

The following is a description of some significant control activities. These control activities were included in the scope of our review, however, they do not represent all the control activities of this process.

- *Control 1.* One Fiscal Operations Director reconciles the Federal accounts receivable, deferred revenue and revenue information compiled on the GAAP Sheet report[22] to the corresponding information reported to the applicable Federal agencies, summarized on the agency's Summary Payment Management System report[23].
- *Control 2.* A different Fiscal Operations Director reviews the GAAP Sheet report for reasonableness.

We did not note any deficiencies in the control activities over this process.

DCF and OVHA Information Technology Controls

Our review of various IT controls at DCF and OVHA found control deficiencies. First, DCF had a substantial number of general control weaknesses in two IT environments that are used to administer the foster care and child care programs. Second, although an independent auditor found no material weaknesses in the IT control environments of two major service providers that the State uses to process Medicaid claims, OVHA's user controls related to these service providers presented a more mixed picture. In some cases OVHA had implemented the expected controls while in others it had not. Taken together, these control deficiencies are considered significant. DCF and OVHA have largely indicated that they planned to address the identified problems and, in some cases, have already taken action.

DCF General Controls

As part of our review of IT general controls at several departments, we reviewed controls related to DCF's Bright Futures Information System (BFIS) and Social Services Management Information System (SSMIS) IT environments, which are used in the Child Care and Foster Care programs, respectively. These general control areas related to (1) access to programs and data, (2) application and system software changes, and (3) computer operations. Because of the potentially sensitive nature of some of the findings related to IT security, we are providing the detailed results to DCF in a confidential appendix (Appendix I). Table 1 is a high-level summary of the areas reviewed and the extent to which there was reasonable assurance of the controls' existence or exceptions found.

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[22] The GAAP Sheet report is a compilation of fiscal year-end full and modified accounts receivable and deferred revenue balances for all Federal programs administered by the agency.

[23] The Summary Payment Management System report is a compilation of authorized awards, allowable expenditures, draws and cash balances reported to Federal agencies.

Table 9: BFIS and SSMIS IT General Control Summary

Control Objective Description	**Number of Controls Reviewed**[a]	**Number of Exceptions**[b]	
		BFIS	**SSMIS**
ACCESS TO PROGRAMS AND DATA: Access controls should provide reasonable assurance that computer resources are protected against unauthorized modification, disclosure, loss, or impairment.			
Information security is managed to promote consistent implementation of security practices, and users are aware of the DCF's position with regard to information security, as it pertains to BFIS or SSMIS reporting applications and data.	2	1	1
Physical access to IT computing resources, particularly those used to process and report on financial activity, is restricted by the implementation of appropriate identification, authentication and authorization procedures that reduce the risk of unauthorized and/or inappropriate access.	5	2	2
Logical access to IT computing resources, particularly those used to process and report on financial activity, is restricted by the implementation of appropriate identification, authentication and authorization procedures that reduce the risk of unauthorized and/or inappropriate access.	9	3	5
Procedures have been established that ensure user accounts are added, modified and deleted in a timely manner and which reduce the risk of unauthorized access and/or inappropriate use of the BFIS or SSMIS application and data.	3	2	2
Controls are in place to monitor the management and maintenance of access rights to DCF's financial applications and data.	2	2	2
Appropriate segregation of duties within the BFIS or SSMIS applications and system processes have been identified and have been put into operation.	2	1	1
Security violations including unauthorized access attempts to the BFIS or SSMIS system and application are monitored and reported.	2	2	2
PROGRAM CHANGES: A disciplined process for testing and approving modified programs prior to their implementation is essential to make sure programs operate as intended and that no unauthorized changes are introduced.			
Changes to the BFIS or SSMIS application have been authorized by an appropriate level of management prior to development and migration into production.	2	2	2
System software and configuration changes to the computer systems that run the BFIS or SSMIS application have been authorized by an appropriate level of management.	1	1	1
Changes to the BFIS or SSMIS application have been tested, validated, and the results approved prior to being moved into production.	3	1	3
Operating system software and configuration changes that affect DCF's financial computer systems have been tested, validated, and the results approved prior to being moved into production.	4	3	4
The ability to migrate BFIS or SSMIS application changes into production is restricted to authorized staff.	2	2	2

Control Objective Description	Number of Controls Reviewed[a]	Number of Exceptions[b]	
		BFIS	SSMIS
The ability to migrate system software and configuration changes that affect DCF’s financial computer systems is restricted to authorized staff.	1	1	1
Emergency changes made to the BFIS or SSMIS application, system and infrastructure configurations are appropriately managed and approved.	3	2	3
BFIS or SSMIS application documentation is maintained in a timely fashion and access to the documentation restricted to authorized staff.	2	0	2
COMPUTER OPERATIONS: Controls in this area address a wide variety of issues, such as controls over job processing, backup and recovery procedures, and problem management procedures.			
The BFIS or SSMIS application job runs including batch jobs, interface runs and system backups are accurate, complete, and timely.	3	2	3
Backup and recovery procedures have been implemented that permit databases, transactions feeds and application programs that are necessary for BFIS or SSMIS reporting to be recovered.	5	2	3
Periodic testing of the BFIS or SSMIS system and data file restoration process is conducted and the quality of backup media used to store DCF's financial applications and data is monitored.	2	1	1
Back up media for systems and applications used by DCF's BFIS or SSMIS application is safeguarded, and only authorized staff have access to the backup media.	2	2	0
The BFIS or SSMIS application hardware, software, and media inventory is tracked and kept current.	2	1	1
Operations documentation is maintained and access restricted to authorized staff.	1	n/a	1
Incidents, problems and errors arising from the SSMIS application are analyzed and underlying causes resolved.	2	n/a	2

[a] Not all of the control objectives and controls were applicable to the BFIS environment because a contractor is responsible for certain controls or the control was not applicable to the BFIS technical situation.

[b] In some cases, the same exception applied to both the BFIS and SSMIS environment and are included in both columns.

In some cases DCF reported that it has already implemented the detailed recommendations that were provided. For example, for both the BFIS and SSMIS environments, DCF reported that it reduced the number of unsuccessful log in attempts that a user could make before being automatically locked out of the system. In addition, in many of the remaining control deficiencies, DCF agreed to implement the detailed recommendations that were provided. For example, in some cases the DCF stated that it would add additional controls and/or draft policies or procedures. In addition, DCF reported that it was in the process of upgrading the SSMIS, which it expects will address some of the deficiencies associated with this system.

OVHA User Controls

Medicaid claims processing is performed through a combination of State and contractor systems and resources. For example, OVHA contracts with Electronic Data Systems Corporation (EDS) Vermont to process all Medicaid claims for payment. In addition, MedMetrics Health Partners, Inc. serves as the State's pharmacy benefit manager and approves pharmacy claims, which are sent to EDS for payment. MedMetrics, in turn, contracts with SXC Health Solutions, Inc. to use its online pharmacy transaction processing system. Although the State uses the EDS Vermont, MedMetrics, and SXC Health Solutions contractors to perform important Medicaid IT functions, the State itself is also a major control point for ensuring the integrity of the systems that are used and the data in these systems. For example, the State controls access to the EDS Vermont claims processing system by State personnel and approves changes to the system.

OVHA obtains independent audits of controls utilized by EDS Vermont and SXC Health Solutions, Inc. annually. These audits express an opinion on whether selected controls are placed in operation and include tests of effectiveness. In both cases, the independent auditors' most recent report concluded that the contractor's description of controls related to the objectives under review presented fairly, in all material respects, the relevant aspects of the entity's controls that had been placed in operation as of the timeframe of the audit. Also, the independent auditors concluded that the controls were suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily and the user organization (i.e., the State) applied the controls contemplated in the design of the contractors' controls. These audit reports also specified the controls that were the responsibility of the user organization.

In the case of EDS Vermont, the independent auditor cited four user controls that OVHA should have in place. These controls related to (1) State personnel access to the claims processing system, (2) file updates and reconciliations between the claims processing system and the State's eligibility system, (3) change management, and (4) output controls over paper-generated reports. OVHA had implemented some, but not all, expected user controls in these areas, as follows:

- In 2007, OVHA implemented and documented new procedures which formalized its system access approval and maintenance process. However, this process did not include a mechanism to obtain timely notification of employee terminations from State organizations other than OVHA or to periodically and regularly revisit access levels to ensure that they are still commensurate with job responsibilities.

- Every day, the State's system that establishes and maintains information on beneficiaries transfers changes in Medicaid eligibility records to the EDS Vermont claims processing system. Daily, and in conjunction with EDS Vermont, OVHA staff research errors that result from this process. However, this reconciliation process was incomplete in that there was no process in place to track that all exceptions were reviewed and acted upon. A new daily reconciliation process between the two systems was implemented in August 2007. Under the new process, there are fewer errors to review and correct; however, exceptions are still not tracked to ensure that all are resolved. According to OVHA, many of the exceptions between the two systems are not the type to effect eligibility and, in some cases, reflect errors in the reconciliation program rather than the data. We agree that not all exceptions between the two systems need to be tracked until resolved. However, it would be prudent for OVHA to identify those exceptions that are critical to ensuring that proper eligibility decisions are made by the claims processing system and to establish a process to track those exceptions to completion to make sure that they are addressed.

- In conjunction with EDS Vermont, OVHA has established a change control process in which the State's Associate Chief Information Officer for Health Care approves requests for changes to the claims processing system, helps set priorities, and monitors the status of these projects. We reviewed 10 system changes made during fiscal year 2007 and found that this process was followed.

- For paper-generated reports, the State is responsible for designating the appropriate person to accept and receive such reports from EDS Vermont. OVHA is supposed to notify EDS Vermont when changes to the distribution of the reports are needed. However, the distribution list of reports was out-of-date. According to AHS's Associate Chief Information Officer for Health Care, OVHA is putting a plan in place to ensure that the distribution list is kept current.

The independent auditor's report on controls related to SXC Health Solutions identified 12 user control areas that were applicable to MedMetrics, OVHA, or both organizations. MedMetrics and/or OVHA had implemented two thirds of these user controls. For example, the audit report stated that SXC Health Solutions' customers should maintain backup files in case there is a suspected processing failure at a later time. Such backup files are maintained by both the State and EDS Vermont. In addition, the AHS IT security official reported that the State utilizes security controls, such as encryption, during the transfer of SXC Health Solutions data via the Internet. Nevertheless, there were also user control deficiencies. Specifically,

- EDS Vermont does not have a process in place that confirms that the number of claims that SXC Health Solutions transmitted for payment is the same number that were received by the claims processing system. In addition, neither OVHA, MedMetrics, nor EDS Vermont reconcile the total amount of pharmacy claims that SXC Health Solutions transmits for payment to the amount that is actually paid. We requested that OVHA provide supporting documentation to demonstrate that the amount of pharmacy claims transmitted by SXC Health Solutions for 2 days in fiscal year 2007 was equal to the amount that EDS Vermont paid. An OVHA official reported that she was not able to perform such a reconciliation because needed data was not available from SXC Health Solutions and EDS Vermont. According to this official, OVHA has requested that EDS Vermont and SXC Health Solutions produce reports that would allow the office to perform such reconciliations.

- OVHA does not have a formal process for granting and maintaining access to the SXC Health Solutions system by State staff. According to an OVHA Deputy Director, the Office plans to work with MedMetrics to develop a standardized user access process and also plans to utilize an existing OVHA access control process in the future.

- Although OVHA has a continuity of operations plan, this plan has serious deficiencies and could not be used as an operational tool should it be required. A continuity of operations plan is essential for ensuring that critical information systems, operations, and data can be properly restored if a disaster occurs. Such a plan should cover all key computer operations and be tested. OVHA’s August 2006 plan is labeled “preliminary” and is incomplete and flawed. For example, the plan (1) contains broadly stated critical functions, but the activities required to perform these functions are not included, (2) contains State government phone numbers and email addresses for OVHA staff, but not personal ones, (3) contains instructions to “notify” groups, but does not address how the notification will occur, (4) has four staff listed as being assigned primary responsibility for critical functions, but one has left State employ and the other three individuals do not have cell phone numbers listed, (5) does not indicate that it has been integrated with the plans of major contractors, such as EDS Vermont or SXC Health Solutions, (6) contains outdated information and referenced an operational plan that does not exist, and (7) does not include minimum operational performance measures. Lastly, the plan has not been tested. In December 2007 an OVHA official stated that he had just been assigned the responsibility for updating this plan and noted that he planned on addressing these types of issues. If continuity of operations controls are inadequate, even relatively minor interruptions can result in lost or incorrectly processed data, which can cause financial losses, expensive recovery efforts, and inaccurate or incomplete mission-critical information.

Conclusions

The agency has implemented numerous internal controls related to the entity-level and control activities. Such controls improve the likelihood that the agency is positioned to achieve effectiveness, efficiency and reliability of financial operations and compliance with laws and regulations. Nevertheless, there were a number of areas in which improvements can be made, particularly as it relates to:

- Establishing risk assessment and monitoring processes.
- Maintaining accounting processes documentation.
- Performing timely performance evaluations.
- Improving controls over provider taxes.
- Recording accounts payable in the appropriate fiscal year.
- Retaining the underlying documentation to support management's assertions for significant account balances.
- Implementing applicable IT controls.

These improvements are expected to remediate existing deficiencies and further enhance the agency's controls and ensure the reliability of its financial reporting.

Recommendations

Entity-level Controls

We recommend that the Secretary of AHS:

- Track the completion of employee performance evaluations to ensure that they are accomplished in a timely manner.
- Incorporate into the agency's risk assessment process the use of common criteria to measure the risks across departments to evaluate the likelihood and magnitude of unfavorable events.
- Direct the agency's departments to continue to develop accounting process documentation for all key accounting processes.

Accounts Payable Control Activities

We recommend the Secretary of AHS:

- Provide accounts payable cut-off training to accounts payable personnel and implement a review process over invoices that are paid shortly after fiscal year-end to ensure that expenditures are recorded in the appropriate fiscal year.

Cost Allocation Plan Control Activities

We recommend the Secretary of AHS direct OHVA to:

- Perform a review of the allocation methods assigned to the department general ledger accounts.

Provider Taxes Control Activities

We recommend the Secretary of AHS direct OVHA to:

- Implement an account receivables subsidiary system and establish a process to bill and collect provider taxes.

- Perform a detail review of the provider tax assessment which also includes a validation of (1) statutory rates to the applicable statutes and (2) tax provider basis to the underlying support. In addition, a crosscheck should be performed of the provider tax letters to the provider tax assessment spreadsheet prior to the provider tax assessment letters being signed by the Director and mailed.

- Establish segregation of duties over the handling and recording of cash receipts.

- Develop a segregated process whereby (1) all checks are immediately restrictively endorsed and recorded in a cash receipts log by the administrative assistant, and (2) the authenticated deposit slips are compared to the cash receipts log by different personnel to ensure that all checks are accounted for.

- Establish procedures to ensure that (1) the total approved provider taxes assessments and cash receipts maintained in OVHA spreadsheets are reconciled to VISION and (2) a review of these reconciliations be performed periodically.

- Retain and file all underlying provider tax basis information to substantiate the providers' tax base used in the provider tax assessment calculation worksheet.

Medicaid IBNR Liability Control Activities

We recommend the Secretary of AHS:

- Retain all queries and other key information used to support management's review and validate the provider claims liability recorded in VISION.

Drug Rebate Accounts Receivable and Revenue Control Activities

We recommend the Secretary of AHS:

- Retain the underlying support for all significant financial statement balances, including the drug rebate fund distribution calculation.

Third Party Liability Accounts Receivable and Revenue Control Activities

We recommend the Secretary of AHS:

- Retain the underlying support for all significant financial statement balances, including the third party liability fund distribution calculation.

DCF and OVHA IT Controls

The Secretary of AHS should direct DCF to:

- Implement the IT general control recommendations related to the BFIS and SSMIS application environments contained in the confidential appendix.

The Secretary of AHS should direct OVHA to:

- Develop a process to obtain timely notification of employee terminations from State organizations other than OVHA for those individuals who have been granted access to the EDS Vermont claims processing system.

- Periodically and regularly revisit access levels that have been granted for the EDS Vermont claims processing system to ensure that access levels remain commensurate with job responsibilities.

- Identify the type of errors that occur in the reconciliation of the claims processing and eligibility systems that are critical to ensuring that proper eligibility decisions are made and establish a process to track those types of exceptions to completion to make sure that they are addressed.

- Develop a process to ensure that paper reports generated by the EDS Vermont claims processing system are distributed to the applicable State staff.

- Require EDS Vermont to establish a process to confirm that the number of claims that SXC Health Solutions transmits for payment is the same number that were received by the claims processing system.

- Develop a process to validate that the amount of claims transmitted by SXC Health Solutions for payment are the same as the amount of claims paid by EDS.

- Implement a process to approve and maintain State user access to the SXC Health Solutions system.

- Revise its continuity of operations plan to address, at a minimum, the myriad of deficiencies outlined in this report and periodically test this plan.

Management's Comments and Our Evaluation

On May 14, 2008, the Secretary of the Agency for Human Services provided comments on the draft of this report (reprinted in Appendix II). In general, AHS's comments address the actions that it plans to take in response to our findings. However, the agency did not fully agree with some of our comments. The following summarizes AHS's comments and our evaluation.

Entity-level Controls

- *Completion of Employee Performance Evaluations.* AHS concurred with our recommendation in this area. The agency reported that it made a database available to managers to track performance evaluations. In addition, the Agency Secretary has established and communicated to the commissioners the importance of timely and accurate completion of performance evaluations in accordance with human resource policies.

- *Risk Management.* The agency has stated that it may be possible to assign a common rating scale for the "likelihood" of the occurrence of an event, but creating a common scale for "magnitude" is difficult to conceptualize in an agency as diverse as AHS. We believe that because the agency faces a diversity of risks it is paramount that the agency have a risk assessment process in place which includes an assessment of the magnitude or impact of these risks events. The Department of Finance & Management, *Internal Control Standards, A Guide for Managers*, provides guidance to assist agency's in evaluating their risk. Included in this guidance is an impact rating scale which is designed to help evaluate risk's potential impact. The agency should utilize this guidance to develop a risk assessment process to evaluate the likelihood and impact of unfavorable events.

- *Accounting Process Documentation.* The agency acknowledged that certain infrequent transactions represent risks to the agency, however, the agency did not indicate whether they plan to develop accounting process documentation for these or other key accounting processes. Accounting process documentation is an integral part of any strong internal control framework. As the agency has stated there is some system procedure documentation available online, through sources such as the Department of Finance & Management website. There are other procedures available for drawing and reporting Federal awards, some of which are defined by the Federal government. Although this documentation may be available, it is not tailored to specific agencies and departments nor does it cover all processes of the agency, such as provider taxes. Moreover, the information that is available from the sources mentioned by the agency is not centrally located and may be difficult for end users to locate. We credit many departments for recognizing the importance of accounting process documentation, having already begun the documentation process, but we believe that the agency departments should continue to develop accounting process documentation for all key processes.

Accounts Payable

The agency stated that staff are more familiar with budget rather than financial reporting and the accounts payable cut-off process requires special attention and training during the annual close-out process. It will heighten its efforts in that regard. Although the agency acknowledged that ensuring proper coding of invoices requires special attention and training, they did not explicitly address our recommendation. The accounts payable coding at year-end is a significant process that is material to the state's financial statements and the exceptions that were noted during the FY 2007 audit were significant (11% or $4.5 million). We reiterate our recommendation that the agency provide accounts payable cutoff training and implement a review process over invoices that are paid shortly after fiscal year-end to ensure that expenditures are recorded in the appropriate fiscal year.

Cost Allocation Plan

The agency stated that OVHA's Accountant C (Accounts Receivable) performs quarterly reconciliations of cost allocation methods to the general ledger. We agree that OVHA accountants were reconciling the cost allocation reports to the general ledger, but during our walkthroughs and interviews it was noted that cost allocation methods assigned to the department's general ledger accounts were not verified quarterly to the approved Federal cost allocation plan. We recognize the accounting staff turnover the department has experienced and understand that the Accountant C who assumed the cost allocation plan responsibilities was initially unfamiliar with the process. We feel the Accountant C now has a better understanding of the cost allocation process and should be better equipped to perform a review of the allocation methods assigned to the department's general ledger accounts.

Provider Taxes

The Secretary's response discussed the actions that the agency is taking, or plans to take, in response to this control finding. For example,

- OVHA plans to use an existing accounts receivable subsystem managed by its Medicaid fiscal agent (EDS) to establish and maintain provider tax receivables.

- OVHA is in the process of implementing processes to ensure proper segregation of duties over the handling and recording of cash receipts and developing a policies and procedures manual.

- OVHA plans to implement a process to reconcile provider taxes to the general ledger (VISION).

- OVHA is developing written procedures to address the computation and review of provider taxes as well as what supporting documentation needs to be retained.

Retention of Documentation – Medicaid IBNR Liability

The agency reported that they retain all queries and other key information used to support management's review and validate the provider claims liability (IBNR) recorded in VISION and that the wrong information was provided due to a miscommunication. However, during our audit we found the department did not maintain readily available underlying support for the IBNR balance. The department should retain all queries and other key information used to support management's review in a manner that is available upon request. We requested the underlying detail supporting the IBNR balance during mid-October 2007. As this support was not provided to us, we requested copies of the queries run by the program integrity manager which would demonstrate the methodology that was used to develop the IBNR accrual. These queries were provided after considerable delay and since they were run subsequent to year-end, they needed to be reconciled to the Medicaid IBNR balances as of June 30, 2007. Several weeks after OVHA provided the query reports, OVHA was able to locate the underlying support for the IBNR balances as of June 30, 2007.

Retention of Documentation – Drug Rebate Accounts Receivable and Revenue

The agency concurred with our recommendation in this area.

Retention of Documentation – Third Party Liability Accounts Receivable and Revenue

The agency and OVHA reported that they both recognize the necessity of retaining the detail that supports the amounts reported on the State's consolidated annual financial report.

DCF and OVHA IT Controls

The Agency reported that it has made significant progress in addressing the recommendations related to DCF's IT general controls related to the BFIS and SSMIS environments. Moreover, AHS reported that its Security Director, in conjunction with DCF, had created an action plan that assigned responsibility and completion dates for outstanding items and planned to monitor compliance with this plan.

With respect to OVHA's IT user controls, AHS stated that it has begun to implement, or plans to implement, our recommendations. For example, AHS reported that it:

- will revisit the levels of access granted to the EDS Vermont claims processing system during annual performance evaluations,
- has partially completed work related to developing a process to validate the amount of claims transmitted by SXC Health Solutions for payment are the same as the amount claims by EDS, and
- plans to complete a continuity of operations plan that will address our concerns by June 2008.

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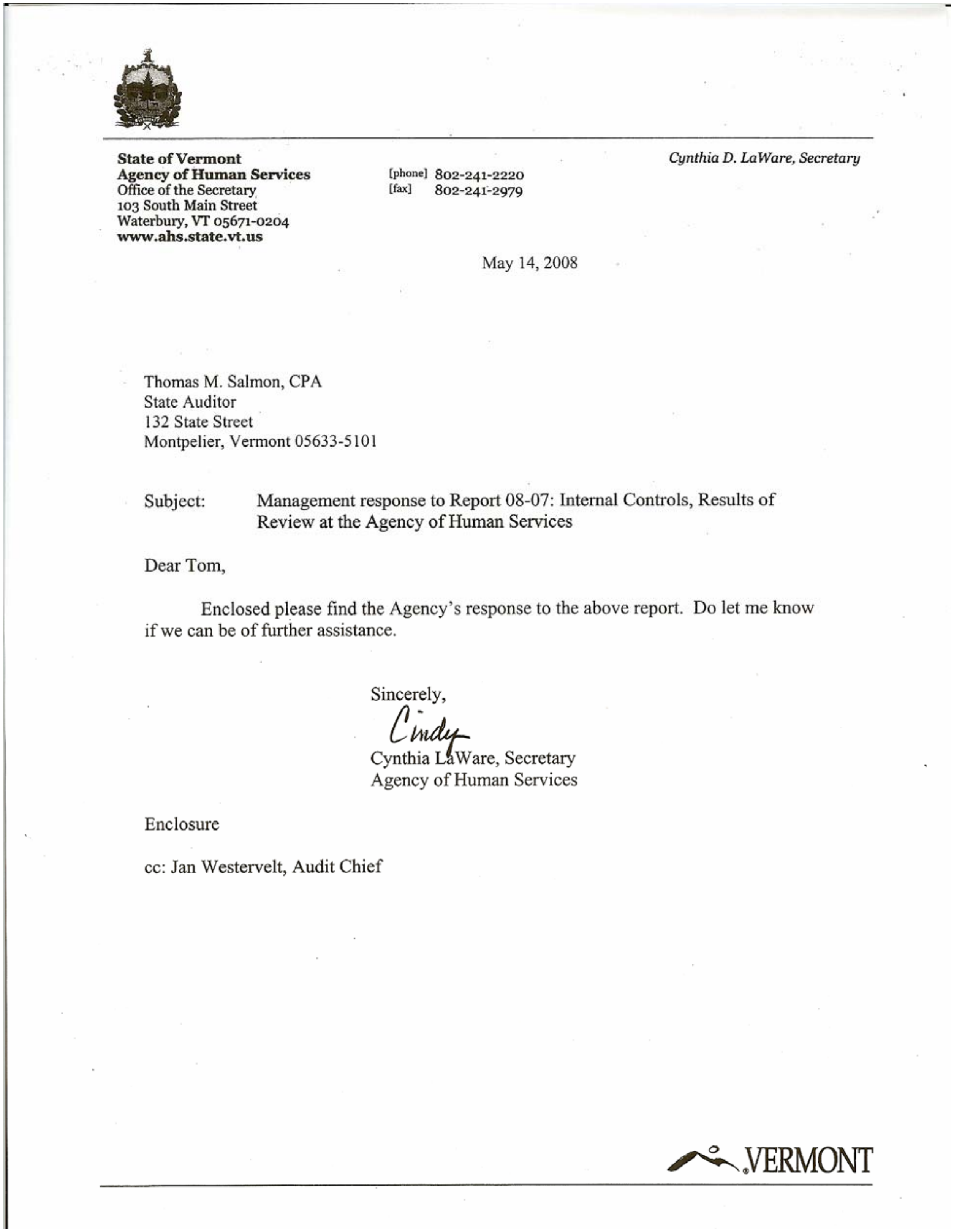
In accordance with 32 V.S.A §163, we are also providing copies of this report to the Secretary of the Agency of Administration, Commissioner of the Department of Finance and Management, and the Department of Libraries. In addition, the report will be made available at no charge on the State Auditor's web site, www.auditor.vermont.gov.

Appendix I: IT General Controls

This appendix was provided solely to the Agency of Human Services due to the potentially sensitive nature of the information.

Appendix II: Response by the Secretary, May 14, 2008



State of Vermont
Agency of Human Services
Office of the Secretary
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Waterbury, VT 05671-0204
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[phone] 802-241-2220
[fax] 802-241-2979

Cynthia D. LaWare, Secretary

May 14, 2008

Thomas M. Salmon, CPA
State Auditor
132 State Street
Montpelier, Vermont 05633-5101

Subject: Management response to Report 08-07: Internal Controls, Results of Review at the Agency of Human Services

Dear Tom,

Enclosed please find the Agency's response to the above report. Do let me know if we can be of further assistance.

Sincerely,

Cindy

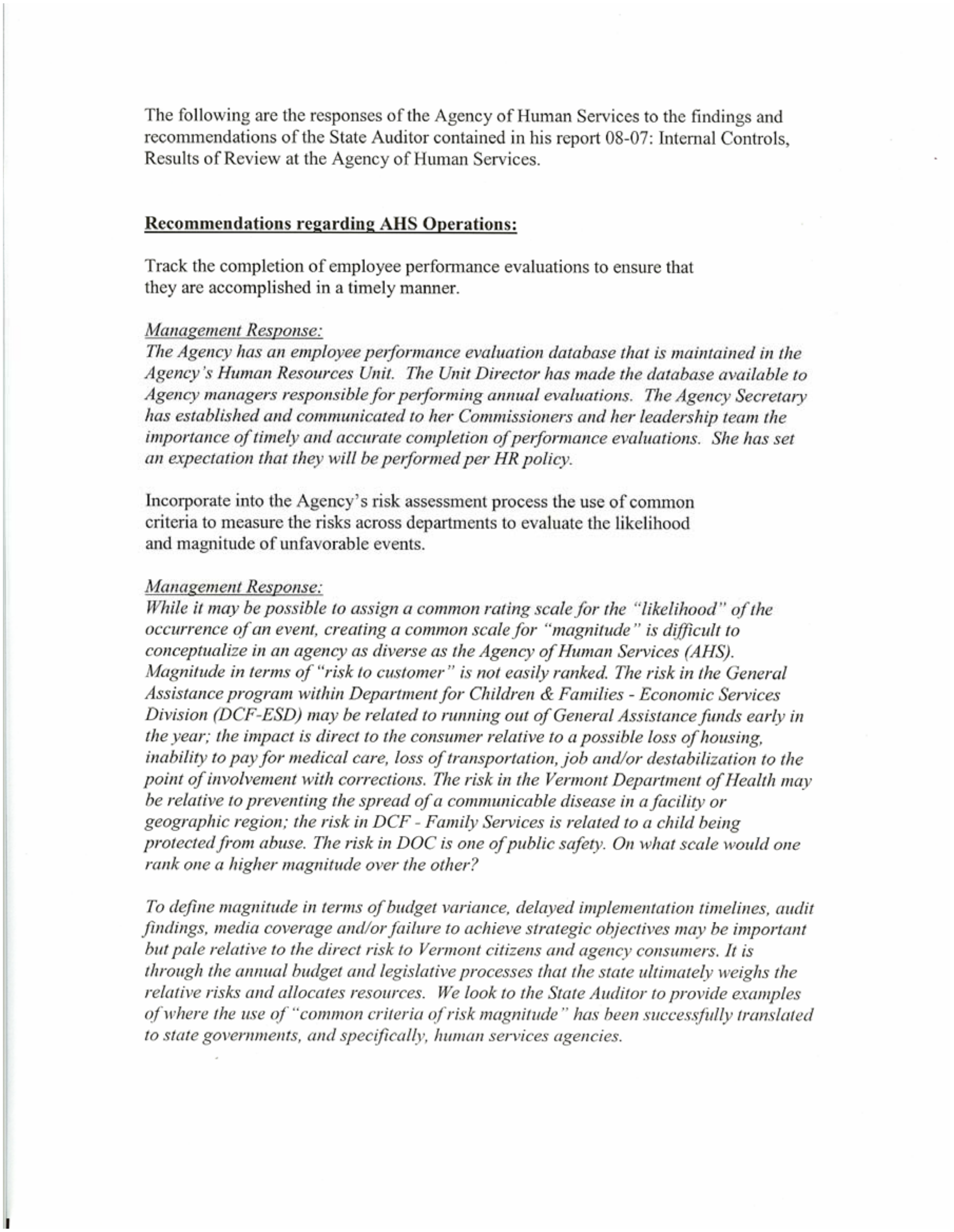
Cynthia LaWare, Secretary
Agency of Human Services

Enclosure

cc: Jan Westervelt, Audit Chief

VERMONT

Appendix II: Response by the Secretary, May 14, 2008



The following are the responses of the Agency of Human Services to the findings and recommendations of the State Auditor contained in his report 08-07: Internal Controls, Results of Review at the Agency of Human Services.

Recommendations regarding AHS Operations:

Track the completion of employee performance evaluations to ensure that they are accomplished in a timely manner.

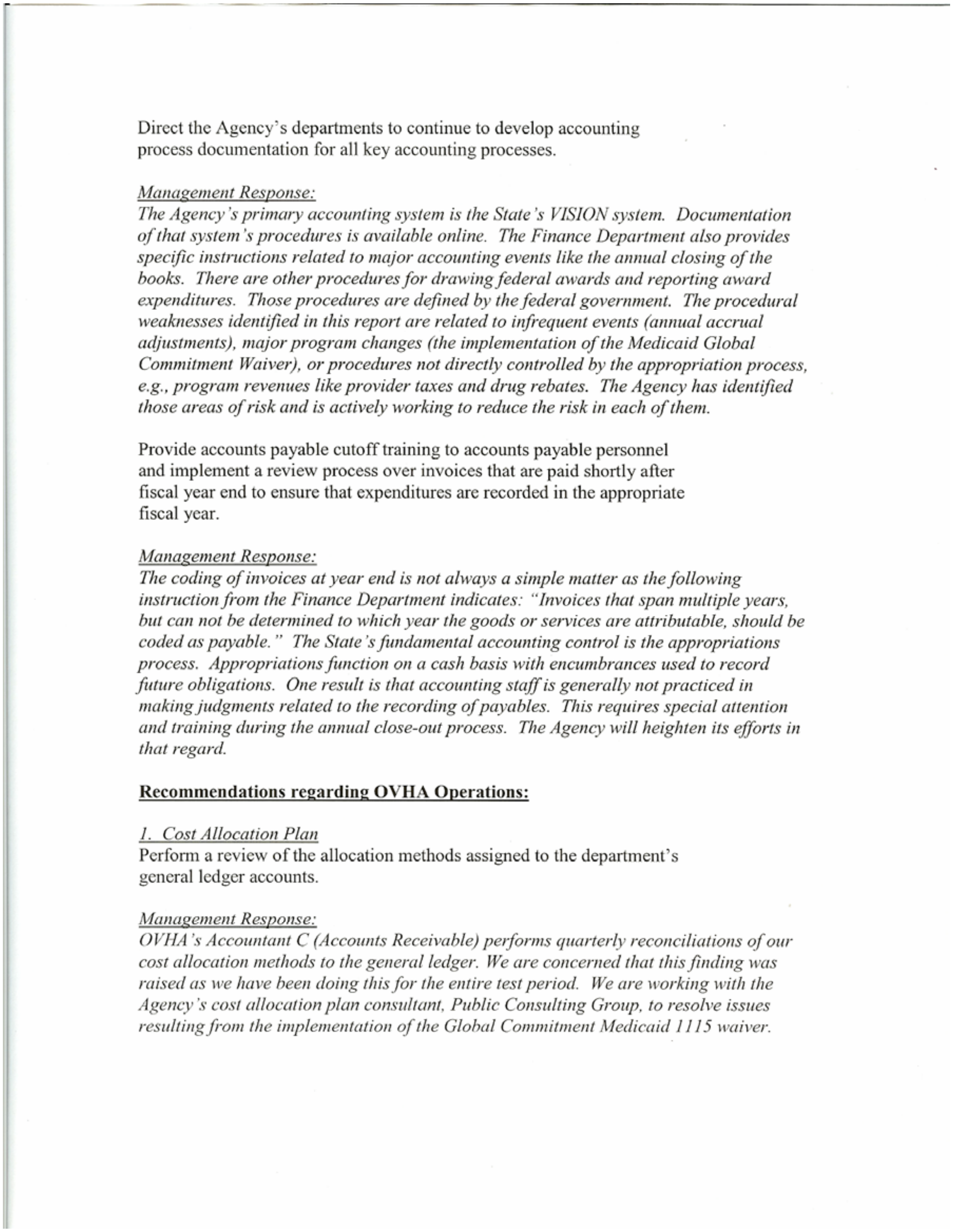
Management Response:
The Agency has an employee performance evaluation database that is maintained in the Agency's Human Resources Unit. The Unit Director has made the database available to Agency managers responsible for performing annual evaluations. The Agency Secretary has established and communicated to her Commissioners and her leadership team the importance of timely and accurate completion of performance evaluations. She has set an expectation that they will be performed per HR policy.

Incorporate into the Agency's risk assessment process the use of common criteria to measure the risks across departments to evaluate the likelihood and magnitude of unfavorable events.

Management Response:
While it may be possible to assign a common rating scale for the "likelihood" of the occurrence of an event, creating a common scale for "magnitude" is difficult to conceptualize in an agency as diverse as the Agency of Human Services (AHS). Magnitude in terms of "risk to customer" is not easily ranked. The risk in the General Assistance program within Department for Children & Families - Economic Services Division (DCF-ESD) may be related to running out of General Assistance funds early in the year; the impact is direct to the consumer relative to a possible loss of housing, inability to pay for medical care, loss of transportation, job and/or destabilization to the point of involvement with corrections. The risk in the Vermont Department of Health may be relative to preventing the spread of a communicable disease in a facility or geographic region; the risk in DCF - Family Services is related to a child being protected from abuse. The risk in DOC is one of public safety. On what scale would one rank one a higher magnitude over the other?

To define magnitude in terms of budget variance, delayed implementation timelines, audit findings, media coverage and/or failure to achieve strategic objectives may be important but pale relative to the direct risk to Vermont citizens and agency consumers. It is through the annual budget and legislative processes that the state ultimately weighs the relative risks and allocates resources. We look to the State Auditor to provide examples of where the use of "common criteria of risk magnitude" has been successfully translated to state governments, and specifically, human services agencies.

Appendix II: Response by the Secretary, May 14, 2008



Direct the Agency's departments to continue to develop accounting process documentation for all key accounting processes.

Management Response:
The Agency's primary accounting system is the State's VISION system. Documentation of that system's procedures is available online. The Finance Department also provides specific instructions related to major accounting events like the annual closing of the books. There are other procedures for drawing federal awards and reporting award expenditures. Those procedures are defined by the federal government. The procedural weaknesses identified in this report are related to infrequent events (annual accrual adjustments), major program changes (the implementation of the Medicaid Global Commitment Waiver), or procedures not directly controlled by the appropriation process, e.g., program revenues like provider taxes and drug rebates. The Agency has identified those areas of risk and is actively working to reduce the risk in each of them.

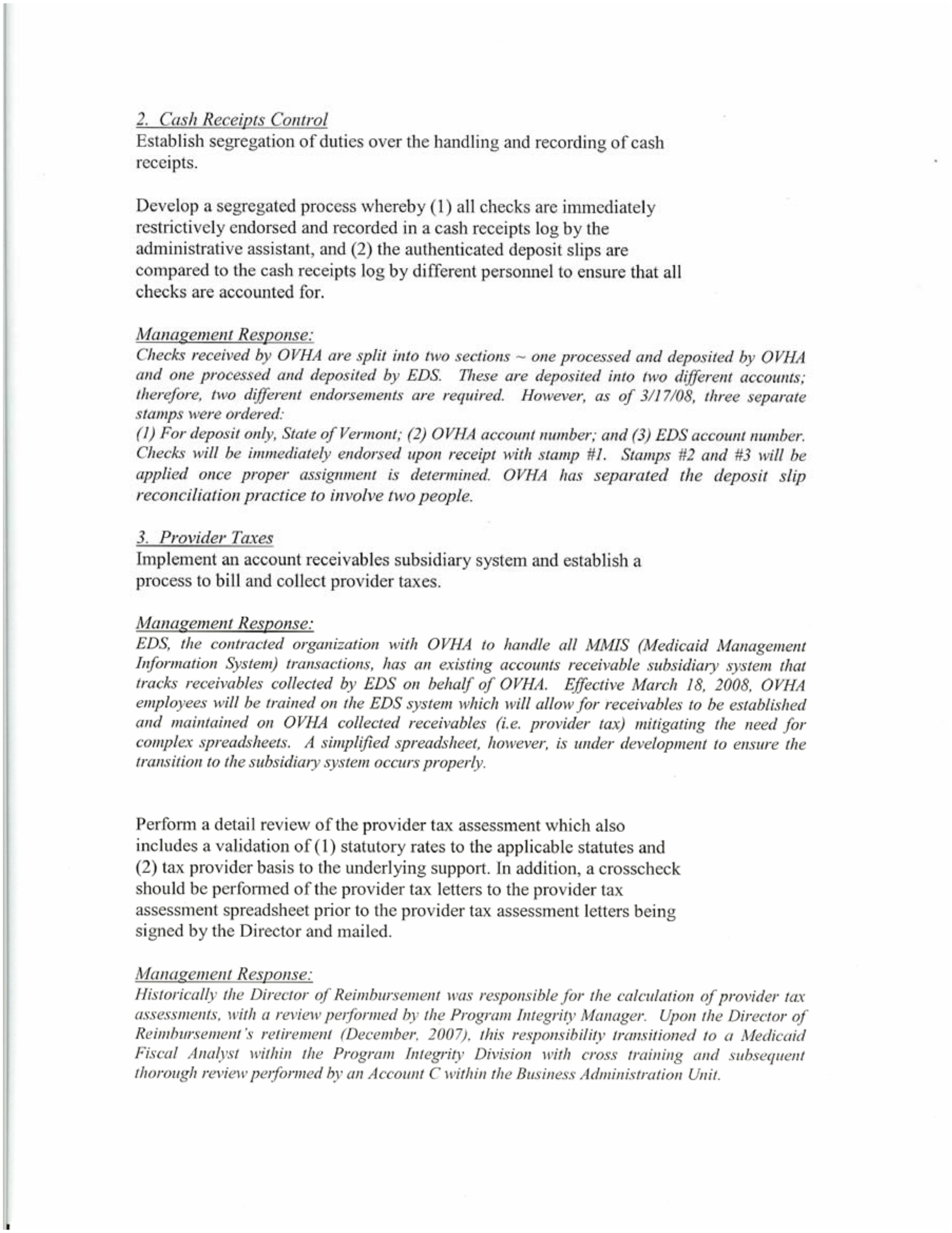
Provide accounts payable cutoff training to accounts payable personnel and implement a review process over invoices that are paid shortly after fiscal year end to ensure that expenditures are recorded in the appropriate fiscal year.

Management Response:
The coding of invoices at year end is not always a simple matter as the following instruction from the Finance Department indicates: "Invoices that span multiple years, but can not be determined to which year the goods or services are attributable, should be coded as payable." The State's fundamental accounting control is the appropriations process. Appropriations function on a cash basis with encumbrances used to record future obligations. One result is that accounting staff is generally not practiced in making judgments related to the recording of payables. This requires special attention and training during the annual close-out process. The Agency will heighten its efforts in that regard.

Recommendations regarding OVHA Operations:

1. Cost Allocation Plan
Perform a review of the allocation methods assigned to the department's general ledger accounts.

Management Response:
OVHA's Accountant C (Accounts Receivable) performs quarterly reconciliations of our cost allocation methods to the general ledger. We are concerned that this finding was raised as we have been doing this for the entire test period. We are working with the Agency's cost allocation plan consultant, Public Consulting Group, to resolve issues resulting from the implementation of the Global Commitment Medicaid 1115 waiver.



2. Cash Receipts Control
Establish segregation of duties over the handling and recording of cash receipts.

Develop a segregated process whereby (1) all checks are immediately restrictively endorsed and recorded in a cash receipts log by the administrative assistant, and (2) the authenticated deposit slips are compared to the cash receipts log by different personnel to ensure that all checks are accounted for.

Management Response:
Checks received by OVHA are split into two sections ~ one processed and deposited by OVHA and one processed and deposited by EDS. These are deposited into two different accounts; therefore, two different endorsements are required. However, as of 3/17/08, three separate stamps were ordered:
(1) For deposit only, State of Vermont; (2) OVHA account number; and (3) EDS account number. Checks will be immediately endorsed upon receipt with stamp #1. Stamps #2 and #3 will be applied once proper assignment is determined. OVHA has separated the deposit slip reconciliation practice to involve two people.

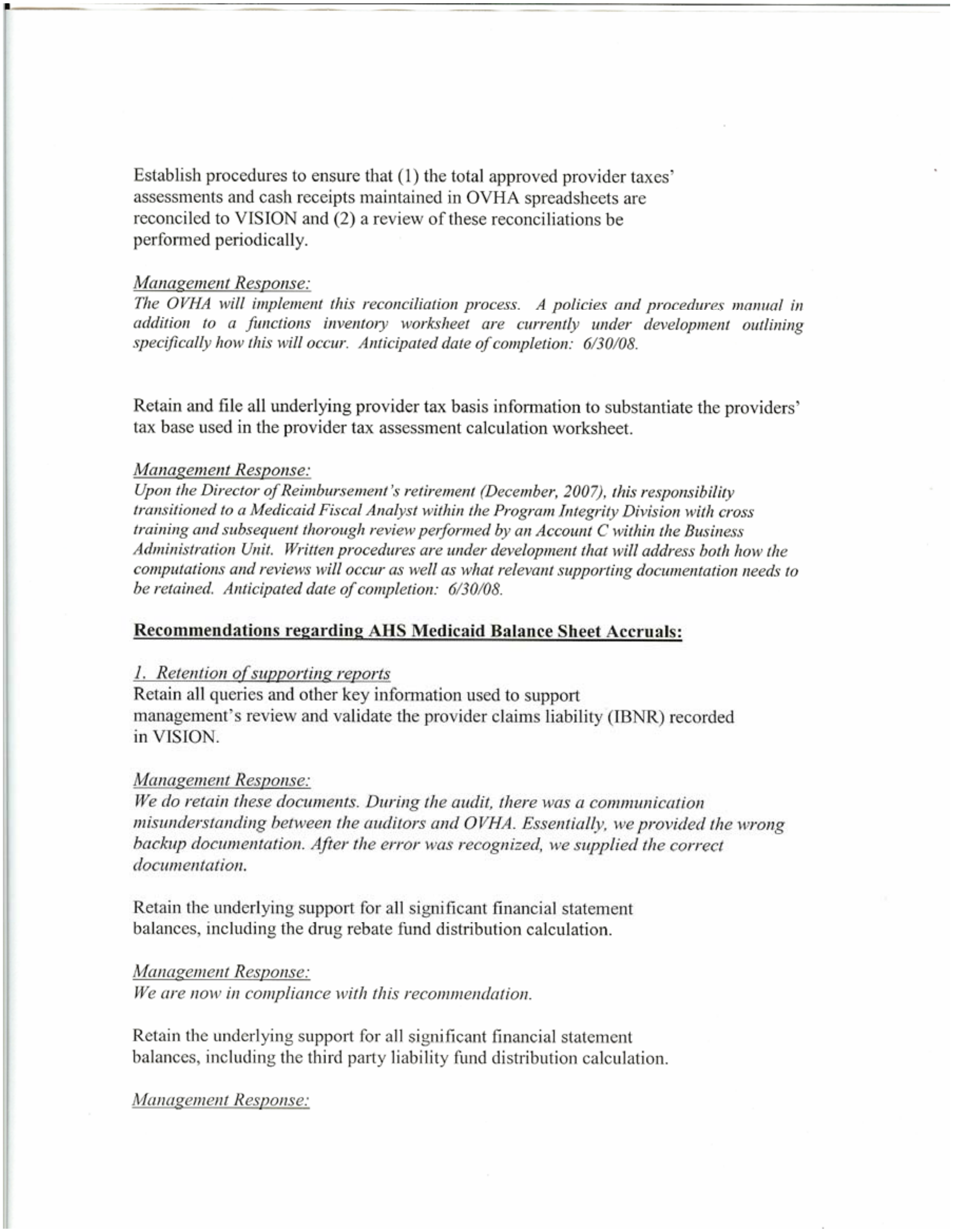
3. Provider Taxes
Implement an account receivables subsidiary system and establish a process to bill and collect provider taxes.

Management Response:
EDS, the contracted organization with OVHA to handle all MMIS (Medicaid Management Information System) transactions, has an existing accounts receivable subsidiary system that tracks receivables collected by EDS on behalf of OVHA. Effective March 18, 2008, OVHA employees will be trained on the EDS system which will allow for receivables to be established and maintained on OVHA collected receivables (i.e. provider tax) mitigating the need for complex spreadsheets. A simplified spreadsheet, however, is under development to ensure the transition to the subsidiary system occurs properly.

Perform a detail review of the provider tax assessment which also includes a validation of (1) statutory rates to the applicable statutes and (2) tax provider basis to the underlying support. In addition, a crosscheck should be performed of the provider tax letters to the provider tax assessment spreadsheet prior to the provider tax assessment letters being signed by the Director and mailed.

Management Response:
Historically the Director of Reimbursement was responsible for the calculation of provider tax assessments, with a review performed by the Program Integrity Manager. Upon the Director of Reimbursement's retirement (December, 2007), this responsibility transitioned to a Medicaid Fiscal Analyst within the Program Integrity Division with cross training and subsequent thorough review performed by an Account C within the Business Administration Unit.

Appendix II: Response by the Secretary, May 14, 2008



Establish procedures to ensure that (1) the total approved provider taxes' assessments and cash receipts maintained in OVHA spreadsheets are reconciled to VISION and (2) a review of these reconciliations be performed periodically.

Management Response:
The OVHA will implement this reconciliation process. A policies and procedures manual in addition to a functions inventory worksheet are currently under development outlining specifically how this will occur. Anticipated date of completion: 6/30/08.

Retain and file all underlying provider tax basis information to substantiate the providers' tax base used in the provider tax assessment calculation worksheet.

Management Response:
Upon the Director of Reimbursement's retirement (December, 2007), this responsibility transitioned to a Medicaid Fiscal Analyst within the Program Integrity Division with cross training and subsequent thorough review performed by an Account C within the Business Administration Unit. Written procedures are under development that will address both how the computations and reviews will occur as well as what relevant supporting documentation needs to be retained. Anticipated date of completion: 6/30/08.

Recommendations regarding AHS Medicaid Balance Sheet Accruals:

1. Retention of supporting reports
Retain all queries and other key information used to support management's review and validate the provider claims liability (IBNR) recorded in VISION.

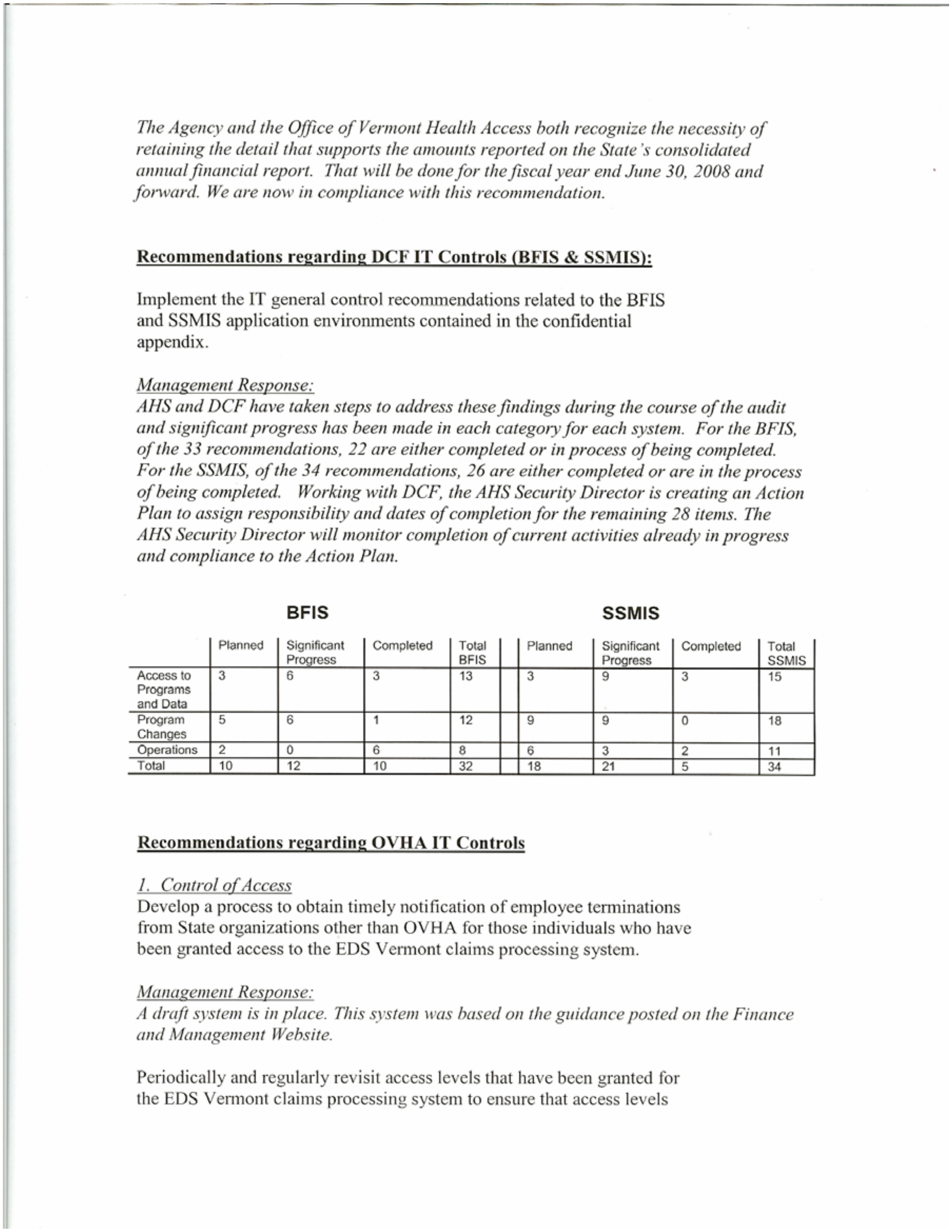
Management Response:
We do retain these documents. During the audit, there was a communication misunderstanding between the auditors and OVHA. Essentially, we provided the wrong backup documentation. After the error was recognized, we supplied the correct documentation.

Retain the underlying support for all significant financial statement balances, including the drug rebate fund distribution calculation.

Management Response:
We are now in compliance with this recommendation.

Retain the underlying support for all significant financial statement balances, including the third party liability fund distribution calculation.

Management Response:



The Agency and the Office of Vermont Health Access both recognize the necessity of retaining the detail that supports the amounts reported on the State's consolidated annual financial report. That will be done for the fiscal year end June 30, 2008 and forward. We are now in compliance with this recommendation.

Recommendations regarding DCF IT Controls (BFIS & SSMIS):

Implement the IT general control recommendations related to the BFIS and SSMIS application environments contained in the confidential appendix.

Management Response:
AHS and DCF have taken steps to address these findings during the course of the audit and significant progress has been made in each category for each system. For the BFIS, of the 33 recommendations, 22 are either completed or in process of being completed. For the SSMIS, of the 34 recommendations, 26 are either completed or are in the process of being completed. Working with DCF, the AHS Security Director is creating an Action Plan to assign responsibility and dates of completion for the remaining 28 items. The AHS Security Director will monitor completion of current activities already in progress and compliance to the Action Plan.

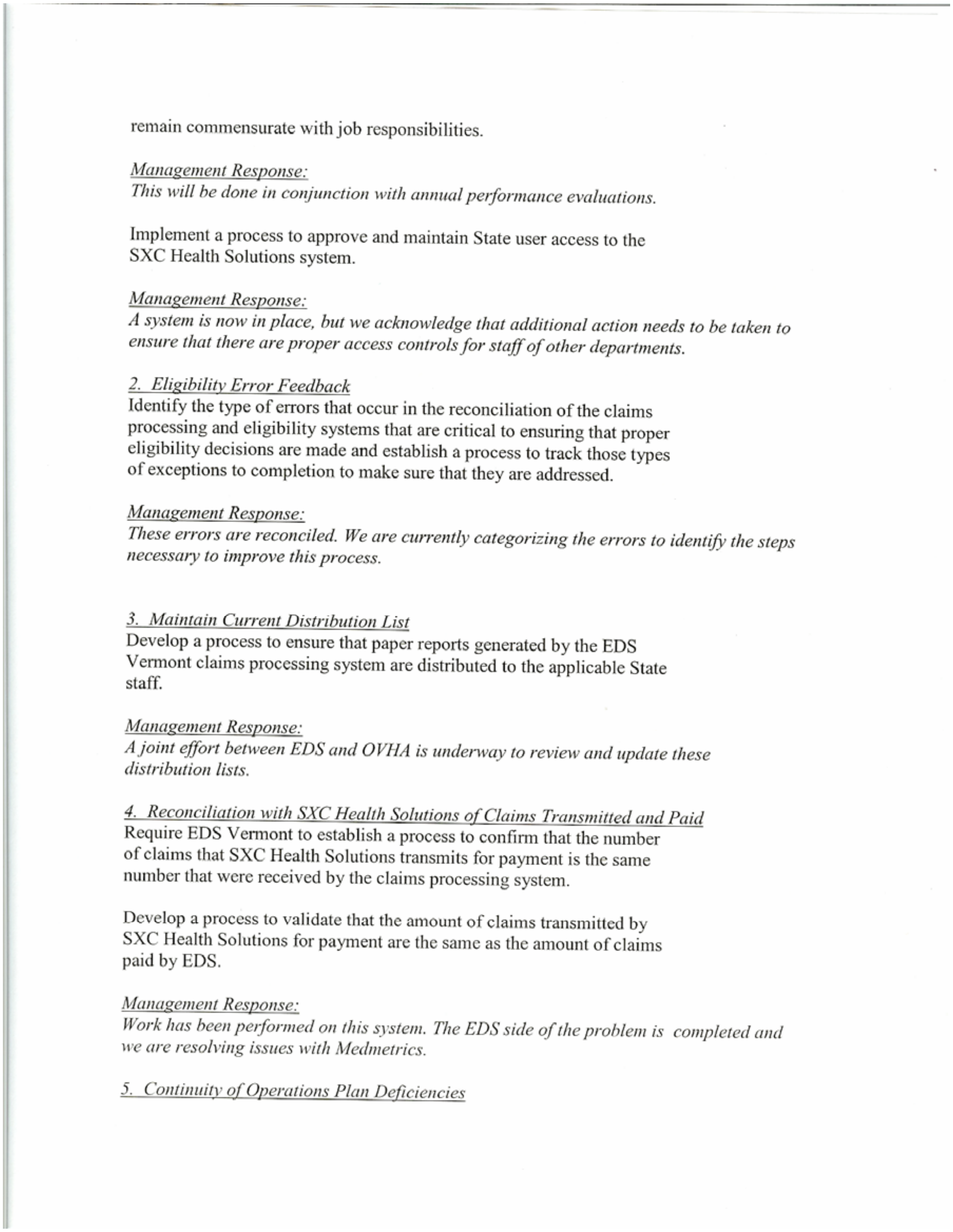
	BFIS				SSMIS			
	Planned	Significant Progress	Completed	Total BFIS	Planned	Significant Progress	Completed	Total SSMIS
Access to Programs and Data	3	6	3	13	3	9	3	15
Program Changes	5	6	1	12	9	9	0	18
Operations	2	0	6	8	6	3	2	11
Total	10	12	10	32	18	21	5	34

Recommendations regarding OVHA IT Controls

1. Control of Access
Develop a process to obtain timely notification of employee terminations from State organizations other than OVHA for those individuals who have been granted access to the EDS Vermont claims processing system.

Management Response:
A draft system is in place. This system was based on the guidance posted on the Finance and Management Website.

Periodically and regularly revisit access levels that have been granted for the EDS Vermont claims processing system to ensure that access levels



remain commensurate with job responsibilities.

Management Response:
This will be done in conjunction with annual performance evaluations.

Implement a process to approve and maintain State user access to the SXC Health Solutions system.

Management Response:
A system is now in place, but we acknowledge that additional action needs to be taken to ensure that there are proper access controls for staff of other departments.

2. Eligibility Error Feedback

Identify the type of errors that occur in the reconciliation of the claims processing and eligibility systems that are critical to ensuring that proper eligibility decisions are made and establish a process to track those types of exceptions to completion to make sure that they are addressed.

Management Response:
These errors are reconciled. We are currently categorizing the errors to identify the steps necessary to improve this process.

3. Maintain Current Distribution List

Develop a process to ensure that paper reports generated by the EDS Vermont claims processing system are distributed to the applicable State staff.

Management Response:
A joint effort between EDS and OVHA is underway to review and update these distribution lists.

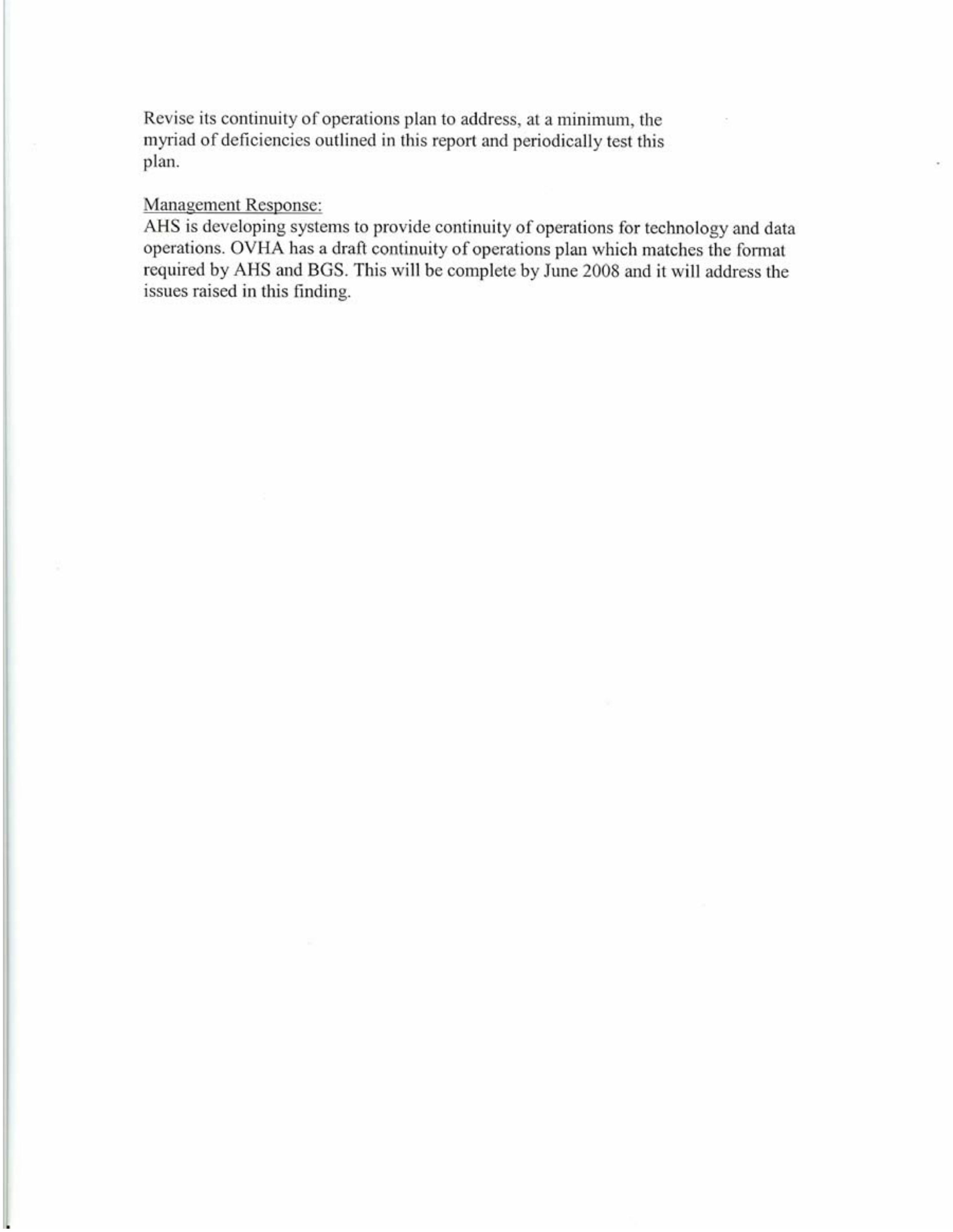
4. Reconciliation with SXC Health Solutions of Claims Transmitted and Paid

Require EDS Vermont to establish a process to confirm that the number of claims that SXC Health Solutions transmits for payment is the same number that were received by the claims processing system.

Develop a process to validate that the amount of claims transmitted by SXC Health Solutions for payment are the same as the amount of claims paid by EDS.

Management Response:
Work has been performed on this system. The EDS side of the problem is completed and we are resolving issues with Medmetrics.

5. Continuity of Operations Plan Deficiencies



Revise its continuity of operations plan to address, at a minimum, the myriad of deficiencies outlined in this report and periodically test this plan.

Management Response:
AHS is developing systems to provide continuity of operations for technology and data operations. OVHA has a draft continuity of operations plan which matches the format required by AHS and BGS. This will be complete by June 2008 and it will address the issues raised in this finding.